

State of Arizona
Senate
Forty-seventh Legislature
Second Regular Session
2006

SENATE BILL 1290

AN ACT

AMENDING SECTIONS 42-14156 AND 42-14158, ARIZONA REVISED STATUTES; RELATING TO ELECTRICAL GENERATION FACILITIES PROPERTY TAX.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:
2 Section 1. Section 42-14156, Arizona Revised Statutes, is amended to
3 read:

4 42-14156. Computing valuation of electric generation
5 facilities: definitions

6 A. The valuation of electric generation facilities referred to in
7 section 42-14151, subsection A, paragraph 4 shall be determined as follows:

8 1. The value of land used by the facility shall be determined by the
9 county assessor in the county in which the property is located and
10 transmitted to the department.

11 2. The valuation of real AND PERSONAL property ~~improvements used in~~
12 operating ~~the~~ A facility WITHOUT AN EXEMPT WHOLESALE GENERATOR CERTIFICATE,
13 VALUED IN A PRIOR YEAR BY THE DEPARTMENT PURSUANT TO SECTION 42-14154, is the
14 cost multiplied by valuation factors prescribed by tables adopted by the
15 department.

16 3. The valuation of REAL AND personal property ~~used in~~ operating ~~the~~ A
17 facility THAT BEGAN OPERATIONS WITH AN EXEMPT WHOLESALE GENERATOR
18 CERTIFICATE, OR THAT BEGAN OPERATIONS WITHOUT AN EXEMPT WHOLESALE GENERATOR
19 CERTIFICATE AND WAS NOT VALUED IN A PRIOR YEAR PURSUANT TO SECTION 42-14154,
20 is the cost multiplied by the valuation factors as prescribed by tables
21 adopted by the department, ~~adjusted as follows:~~ AND BY USING THE FOLLOWING
22 VALUATION TABLES FOR NATURAL GAS FIRED FACILITIES:

- 23 (a) A TWENTY-FIVE YEAR VALUATION TABLE FOR REAL PROPERTY IMPROVEMENTS.
24 (b) A TWENTY YEAR VALUATION TABLE FOR PERSONAL PROPERTY.

25 4. IN ADDITION, THE VALUATION OF PERSONAL PROPERTY USED IN OPERATING
26 THE FACILITIES DETERMINED UNDER PARAGRAPHS 2 AND 3 OF THIS SUBSECTION SHALL
27 BE FURTHER ADJUSTED AS FOLLOWS:

28 (a) For the first year of assessment, the department shall use
29 thirty-five per cent of the scheduled depreciated value.

30 (b) For the second year of assessment, the department shall use
31 fifty-one per cent of the scheduled depreciated value.

32 (c) For the third year of assessment, the department shall use
33 sixty-seven per cent of the scheduled depreciated value.

34 (d) For the fourth year of assessment, the department shall use
35 eighty-three per cent of the scheduled depreciated value.

36 (e) For the fifth and subsequent years of assessment, the department
37 shall use the scheduled depreciated value as prescribed in the department's
38 guidelines.

39 4. 5. In addition to the computation prescribed in paragraphs 2 ~~and~~,
40 3 AND 4 of this subsection, the taxpayer may submit documentation showing the
41 need for, and the department shall consider, an additional adjustment to
42 recognize obsolescence using standard appraisal methods and techniques.

43 5. 6. The valuation prescribed in ~~paragraph~~ PARAGRAPHS 2 AND 3 of
44 this subsection shall not reduce the valuation below ten per cent of the cost
45 of the real OR PERSONAL property improvements. ~~The valuation prescribed in~~

1 ~~paragraph 3 of this subsection shall not reduce the valuation below ten per~~
2 ~~cent of the cost of the personal property.~~

3 ~~6.~~ 7. The following apply in determining cost for the purposes of
4 this subsection:

5 (a) "Cost" means the cost of constructing the property or acquiring
6 the property in an arm's length transaction.

7 (b) The cost of personal property is the invoice cost of the personal
8 property, the cost of transporting the property to the facility site and the
9 cost of labor to install the property, plus any transaction privilege or use
10 taxes paid.

11 (c) The cost of leased property is the lessor's cost of the property,
12 except that in the case of a lease financing transaction, the cost is the
13 actual cost of construction based on the invoice cost similar to any other
14 type of financing.

15 (d) In the case of a facility that is acquired from another taxpayer:

16 (i) If, after the acquisition, the buyer has possession of the cost
17 information, the valuation of the facility shall continue based on the
18 seller's cost as if there were no change in ownership.

19 (ii) If, after the acquisition, the buyer does not possess the cost
20 information, the acquisition cost in an arm's length transaction shall be
21 used.

22 (e) For generation facilities that were in service before January 1,
23 2001, costs incurred before January 1, 2002 shall be computed in accordance
24 with section 42-14158. For these facilities, all costs incurred on or after
25 January 1, 2002 shall be reported in accordance with subdivisions (a) through
26 (d) of this paragraph.

27 ~~7.~~ 8. The department shall not value personal property construction
28 work in progress until the property is first placed in commercial service.
29 For the purposes of this paragraph, "commercial service" means:

30 (a) For machinery and equipment used in the generation of electricity
31 being valued and placed on the tax roll for the first time, the official
32 assumption of operation and ownership of the machinery and equipment from the
33 contractor by the plant operator.

34 (b) For machinery and equipment added to existing electric generation
35 facilities, that the construction work has progressed to a sufficient degree
36 for the machinery and equipment to be useful for the purpose for which it is
37 being constructed.

38 (c) For machinery and equipment related to self-constructed
39 facilities, that the construction work has progressed to a sufficient degree
40 for the machinery and equipment to be useful for the purpose for which it is
41 being constructed.

42 B. For the purposes of this section:

43 1. "EXEMPT WHOLESALE GENERATOR CERTIFICATE" MEANS A CERTIFICATE
44 GRANTED TO A CLASS OF GENERATORS DEFINED BY THE ENERGY POLICY ACT OF 1992
45 (P.L. 102-486) THAT INCLUDES THE OWNERS OR OPERATORS OF FACILITIES THAT ARE

1 USED TO GENERATE ELECTRICITY EXCLUSIVELY FOR WHOLESALE OR THAT ARE LEASED TO
2 UTILITIES.

3 ~~1.~~ 2. "Personal property" means all tangible property except for land
4 and real property improvements as defined in this section. Personal property
5 includes foundations or supports for the machinery or apparatus for which
6 they are provided, including water cooling towers.

7 ~~2.~~ 3. "Real property improvements" means buildings, including
8 administration buildings, maintenance warehouses and guard shacks, water
9 retention ponds, sewage treatment ponds, reservoirs, sidewalks, drives,
10 curbs, parking lots, tunnels, duct banks, canals, fencing and landscaping.

11 Sec. 2. Section 42-14158, Arizona Revised Statutes, is amended to
12 read:

13 42-14158. Existing generation facilities; computing adjusted
14 original cost; computing full cash value;
15 definitions

16 A. To achieve equity in the full cash values of existing and new
17 electric generation facilities, the department shall compute adjusted
18 original costs for existing generation facilities in lieu of actual cost for
19 use in determining the full cash values in accordance with section
20 42-14156. Adjusted original costs shall be used to determine full cash
21 values for existing generation facilities for tax year 2004 and subsequent
22 years. Retirements of property in service before January 1, 2002 shall be
23 deducted based on the percentage of adjusted original cost to actual original
24 cost for each vintage year. For any property added to an existing generation
25 facility on or after January 1, 2002, or for an electric generation facility
26 placed in service on or after January 1, 2001, cost shall be determined in
27 accordance with the provisions of section 42-14156.

28 B. To compute the adjusted original cost of property placed in service
29 before January 1, 2002 for existing generation facilities, the department
30 shall:

31 1. Determine the full cash value ratio.

32 2. Determine the original cost by vintage year for 2001 and all prior
33 years.

34 3. Multiply the original costs for real property improvements and
35 personal property by vintage year by the full cash value ratio to reflect the
36 tax year 2003 full cash value by vintage year.

37 4. Divide the full cash value by vintage year as calculated in
38 paragraph 3 of this subsection of real property improvements and personal
39 property by the valuation factors reflected in the department's valuation
40 tables as prescribed in section 42-14156, without phase-in adjustments
41 prescribed in section 42-14156, subsection A, paragraph ~~3~~ 4.

42 C. For the purposes of this section:

43 1. "Existing generation facility" means the property of an electric
44 generation facility that was valued by the department as of January 1,

1 2001. It does not include any property added to the facility after January
2 1, 2002.

3 2. "Full cash value ratio" means the full cash value of the existing
4 generation facility for tax year 2003, excluding the value of land associated
5 with the facility, renewable energy equipment and materials and supplies as
6 of December 31, 2001, divided by the total original cost, excluding the cost
7 of land associated with the facility, renewable energy equipment and
8 materials and supplies for the facility as of December 31, 2001.

9 3. "Original cost" means the actual cost of acquiring or constructing
10 property, including additions, retirements, adjustments and transfers.

11 4. "Vintage year" means the first year of depreciation of the asset
12 reflected on the owner's balance sheet.

13 Sec. 3. Retroactivity

14 This act applies retroactively to valuation years beginning from and
15 after December 31, 2005.